



**NAVAJO NATION
DIVISION OF COMMUNITY DEVELOPMENT**

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Bond financing report to council opens new revenue streams

WINDOW ROCK-The Navajo Nation Division of Community Development presented a report on bond financing to the 22nd Navajo Nation Council on May 5, 2011.

Division director Arbin Mitchell was joined by directors from the Office of the Controller, Division of Transportation and Division of Economic Development, to explain the benefits of bond financing for the Navajo Nation.

Council delegate Katherine Benally (Chilchinbeto, Dennehotso, Kayenta) said the issue of bond financing first appeared during the 21st Navajo Nation Council.

"November 17, 2009, was the exact date we started the discussion on this economic development finance plan," Benally said. "Summer 2010 was when we finished up the economic development five-year plan."

She said Navajo Nation President Ben Shelly traveled to New York City with controller Mark Grant and speaker Johnny Naize to discuss the Navajo Nation's credit rating.

"We got an A-rating, which is investment grade for the (Navajo) Nation," said Albert Damon, director of Division of Economic Development.

The nation is eligible to receive an AA-rating, according to Damon, provided certain provisions are met.

According to the Standard and Poor's rating system, A-ratings represent a "Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances."

The AA-rating is a "Very strong capacity to meet financial commitments." The highest rating is the AAA-rating, which is an "Extremely strong capacity to meet financial commitments."

Damon said the five-year plan was for a \$100 million infusion. However, with supplemental funds from other funding sources, that amount to increase to as much as \$250 million.

"Therefore, more projects can be put in there," Damon said. "Remember, this is a loan. It has to be paid back."

One of the additional funding sources for the bond financing proposal is from NNDCCD, via the Infrastructure Capital Improvement Plan.

"Last year, we put a plan together an ICIP," Mitchell said. "It was presented to the Transportation and Community Development Committee and went before the 21st Navajo Nation Council.

"But before we could get to that document, we lost the quorum



Mark Grant, Paulson Chaco, Albert Damon, Katherine Benally and Arbin Mitchell presented bond financing reports to the 22nd Navajo Nation Council on May 5, 2011. Follow up meetings continued on May 16 and 18 in Albuquerque with audit, tax and advisory firm KPMG, LLC. (Photo by Rick Abasta)

and time ran out," he added.

The proposed ICIP from the division has 61 projects, totaling \$69,344,880. Most of the projects progressed past the planning phase, with chapter resolutions, surveys, consents and assessments completed.

"A lot of these projects are in shortfall status. Do we use that for bonding?" Mitchell asked. "What about for renovation?"

Another potential funding source to supplement the bond proposal is NDOT, specifically from the Transportation Improvement Plan.

"The Transportation Improvement Plan consists of all the Indian Reservation Road projects that are on Navajo," said Paulson Chaco, director of NDOT.

Chaco said the IRR program is an allowable revenue stream to leverage or bond against, stated in federal regulations at 25-CFR Part 170. Additionally, NDOT also receives about \$9 million a year under the fuel excise tax program.

"Those are the two revenue streams we have as far as this initiative," Chaco said.

Navajo Nation Controller Mark Grant said the different types of projects all required different types of funding, which he reviewed with council.

Capital improvement projects, economic development projects, local government improvement projects and essential government projects were all reviewed at length and definitions read into the record.

Grant shared calculations on the borrowing capacity for the nation.

"I used the number \$140 million (an average) as the annual recurring revenues for the nation. If you take that number and multiply it by eight percent, you come up with \$11.8 million that's available for debt service," Grant said.

From that \$11.8 million set aside from general funds for debt service, the nation could borrow \$122 million over a 15-year period at five percent.

The next calculation was for the road management fund, which is basically fuel excise tax transfers that were moved into the fund, he explained.

"I used the average number \$9 million," Grant said. "If we used that as debt service at five percent over 15 years, we could borrow \$93 million for the road fund."

The final calculation was on the permanent fund.

"I used the number \$25 million and calculated five percent for 15 years and the amount you could borrow would be \$259 million," Grant said.

Still, other options remained available to the Navajo Nation, like tribal economic development bonds, EB-5 bonds, and new market tax credits. The New Mexico Finance Authority was also another viable option, providing a low interest rate source of funding.

"The projects here are all going to require review and approval by the respective oversight committees. The bond agreement will definitely need to go before council to have their approval," Grant said.

He said the plan is to try for a bond that recognizes tribal court and tribal law. The timeline for the proposal would start May 18, 2011. Meetings to discuss the bond proposal are scheduled for March 16 and 18, in Albuquerque with KPMG, LLC.

Tribal officials and the audit, tax and advisory firm will review

the proposal with a fine-tooth comb before submitting to the Navajo Nation Council for approval and the green light to proceed.

Next comes the road show, beginning August 2, for onsite investor presentations.

"This is where we take out bond out on the road and we try to sell it to all the investors out there," Grant said. "From there, we'll go to the closing, which is on August 25.

"At that point, we would receive the money and issue the bonds to investors," he said.

Benally said the bond financing is an opportunity to address economic development.

"For too long, we've been watching the dollar go off the Navajo Nation. (Bond financing) will pay for itself, eventually. It takes money to make money," Benally said.

Information: www.nndcd.org.

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Casey Begay, department manager for Capital Improvement Office, listens closely to the report on bond financing to the 22nd Navajo Nation Council. Begay's office compiled the Infrastructure Capital Improvement Plan, which totaled \$69,344,880 for 61 projects ranging from senior citizen centers, wellness centers and multipurpose buildings. (Photo by Rick Abasta)



Controller Mark Grant reports to the 22nd Navajo Nation Council about the borrowing capacity of the Navajo Nation. Grant said if the nation invested \$11.8 million from the general fund for debt service, then \$122 million could be borrowed at five percent over a 15-year period. (Photo by Rick Abasta)



The 22nd Navajo Nation Council voted to receive the report on bond financing during the evening hours of May 5, 2011. Council listened to reports from the divisions of community development, economic development and transportation. (Photo by Rick Abasta)